

Kenneth Rust
Director
Federal Regulatory Matters

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NYNEX

February 6, 1997

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION

Re: CC Docket Nos. 96-262 & 94-1

Dear Mr. Caton:

Today, Susanne Guyer, Frank Gumper, and I, representing NYNEX, met with Jim Coltharp, Special Counsel to Commissioner Quello, Dan Gonzalez, Legal Advisor to Commissioner Chong, and Gail McGuire, intern in the office of Commissioner Chong, regarding the items captioned above. The attached material served as the points of discussion.

Any questions on this matter should be directed to me at either the address or the telephone number shown above.

Sincerely,



Attachment

cc: J. Coltharp (letter only)
D. Gonzalez (letter only)
G. McGuire (letter only)

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GUIDING PRINCIPLES FOR ACCESS REFORM

- ILEC revenues reduced by competitive forces, not regulatory fiat;
- ILECs must win end users to retain revenue;
- Fixed costs removed from TS elements
- Over allocations to IS recognized;
- Pricing flexibility commensurate with competitive market.

REVENUES REDUCED BY COMPETITION, NOT REGULATION

- Regulation cannot anticipate the dynamics of the competitive market;
- Even enlightened regulation will yield inefficient outcomes for consumers;
- Prescriptive approach ignores past policy decisions;
- Market-based approach allows for maximum consumer benefit.

ILECs MUST WIN END USERS TO RETAIN REVENUE

- “Revenue neutrality” does not mean “revenue stability;”
- PSL recovery from IXCs not guaranteed:
 - » Revenues lost as competition erodes end user market share;

»

FIXED COSTS REMOVED FROM TS ELEMENTS

- Current structure must be made economically efficient;
- Costs of loops and ports, and over-allocations to IS should be recovered on flat-rated basis from IXC's;
- Cannot sustain MOU recovery of fixed costs in competitive environment.

OVER ALLOCATIONS TO IS RECOGNIZED

- Access margins above economic costs do not equate to “profits;”
 - » Access recovers legitimate costs over-assigned by regulators to Interstate;
 - » Unless Separations reform shifts costs back to State jurisdiction, LECs should be given a reasonable opportunity to recover IS assignment.

PRICING FLEXIBILITY COMMENSURATE WITH COMPETITIVE MARKET

- Competition already present in selected markets;
- Unbundled network elements, where available, create ubiquitous alternatives to Access;
- Current pricing flexibility insufficient for the new access market